

Message Text

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ACTION EB-08

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E.O. 11652 N/A
TAGS ENRG, AR
SUBJECT STATUS OF ARGENTINAS OFF SHORE OIL EXPLORATION

REF: A STATE 53751 NOTAL B 77 BA 8234 NOTAL C BA A-08 NOTAL

1. ON FEBRUARY 20, FIVE GROUPS PRESENTED BIDS ON TIERRA DEL FUEGO AREAS DESCRIBED REG B.
A. SARGO SA ARGENTINA, OBRAS OLEODUCTOS Y GASODUCTOS.
B. BRIDAS SA DEMINEK DEUTSCHE ERDOLVER SORGUS GESSELLSCHAFT MBH, ARFRANCO SA Y TOTAL EXPLOITATION SOCIETE ANONYME.
C. ESSO EXPLORATION ARGENTINA AND CA DIPSA (COMPANIA ARGENTINA PARA EL DESARROLLO DE LA INDUSTRIA DEL PETROLEO Y MINERALES SA.)
D. SHELL HYDROCARBONS BV AND SHELL COMPANIA ARGENTINA DE PETROLEO SA.
E. COMPANIA NAVIERA PEREZ COMPANC.
OF THESE, ONLY GROUPS B, C, AND D WERE PREQUALIFIED. GOA IS CURRENTLY STUDYING BID OFFERS AND WILL PROBABLY NOT MAKE A DECISION FOR A COUPLE OF MONTHS. EMBASSY DOES NOT KNOW TERMS OF BID OFFERS AT THIS TIME. WE WILL REPORT DETAILS
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OF SUCCESSFUL BID ONCE IT IS ANNOUNCED.
2. GOA PLANS TO OFFER ADDITIONAL OFF SHORE RISK CONTRACT AREAS IN THE FUTURE BUT MUST WAIT ISSUANCE OF NEW RISK CONTRACT LAW. ACCORDING TO HIGH LEVEL GOA SOURCE, THE GOA WILL EVENTUALLY REQUEST BIDS IN THE MALVINAS BASIN AND HAS INCLUDED THIS TOPIC IN RECENT UK ARGENTINE TALKS ON MALVINAS. SOURCE IN BRITISH EMBASSY CONFIRMED THAT SUBJECT

OF PETROLEUM EXPLORATION OF MALVINAS HAD BEEN TREATED IN VERY GENERAL TERMS BUT STATED THAT THE GOA HAD NOT MENTIONED THAT IT WANTED TO REQUEST SPECIFIC BIDS FOR OIL EXPLORATION IN THE MALVINAS BASIN. BRITISH SOURCE INDICATED THAT FURTHER TALKS WOULD BE NECESSARY IF GOA DECIDED TO OFFER SPECIFIC AREAS IN MALVINAS BASIN.

3. ACCORDING TO LOCAL REPS, BOTH GEOPHYSICAL SERVICES AND WESTERN SURVEYS OFF THE COAST OF ARGENTINA AND AROUND THE MALVINAS ISLANDS. THEY HAVE SENT THE DATA UP TO THE US FOR PROCESSING AND THE RESULTS WILL PROBABLY BE READY IN LATE MARCH OR APRIL. THE SURVEYS WERE UNDERTAKEN ONLY IN WATERS OVER 200 METERS DEEP, WHERE REPORTEDLY THE OIL FIELDS ARE APT TO BE MUCH LARGER THAN THOSE FOUND CLOSER TO THE ARGENTINE COAST. PRIOR TO UNDERTAKING THE SURVEY, BOTH COMPANIES OBTAINED PERMISSION FROM THE GOA SECRETARIAT OF ENERGY BUT, BECAUSE PERMIT NOT REQUIRED BY UK LEGISLATION, ONLY ADVISED THE BRITISH OF THEIR PLANS. BOTH COMPANIES ARE GIVING FREE COPIES OF THE SURVEYS TO THE BRITISH AND ARGENTINE GOVERNMENTS AND HAVE SOLD AT LEAST PORTIONS OF THE SURVEYS TO AROUND A DOZEN MAJOR FOREIGN OIL COMPANIES.

4. EMIR TAVELLA, THE GEOPHYSICAL SERVICES REP IN BUENOS AIRES, IS AN ARGENTINE WHO HAS BEEN WITH THE COMPANY TWENTY YEARS AND SEEMS TO KNOW THE LOCAL PETROLEUM INDUSTRY WELL. FROM HIS DISCUSSIONS WITH BOTH ARGENTINE AND BRITISH AUTHORITIES, HE BELIEVES THAT THE OIL POTENTIAL OF MALVINAS IS THE MAJOR ISSUE IN THE UK GOA NEGOTIATIONS ON THE FUTURE OF LIMITED OFFICIAL USE

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THESE ISLANDS. WHILE THE BRITISH HAVE FOCUSED PUBLIC ATTENTION ON THE EXPRESSED DESIRE OF THE MALVINAS ISLANDERS TO REMAIN BRITISH, TAVELLA ASSERTS THAT THE UK WOULD BE QUITE WILLING TO SACRIFICE THE ISLANDERS IF IT COULD REACH AN ECONOMIC AGREEMENT WITH ARGENTINA GIVING THE UK A SHARE OF THE OIL PRODUCTION FROM THE AREA. AS LONG AS ARGENTINA IS RECOGNIZED AS HAVING SOVEREIGNTY OVER THE AREA, TAVELLA BELIEVES THAT IT MAY BE POSSIBLE TO REACH AN ECONOMIC AGREEMENT WHICH WOULD OVERCOME STRONG ARGENTINE NATIONALIST SENTIMENTS EG. A JOINT BP-YPF VENTURE FOR OIL EXPLORATION AND EXPLOITATION OFF THE MALVINAS ISLANDS. A SETTLEMENT ON THIS BASIS WOULD THEN AT LEAST CLEAR THIS SERIOUS POLITICAL OBSTACLE TO INVESTMENT BY THE MAJOR FOREIGN OIL COMPANIES IN THIS AREA.

5. COMMENT: EVEN ASSUMING THAT THE UK IS PRIMARILY CONCERNED ABOUT THE POLITICAL FUTURE OF THE MALVINAS ISLANDERS, THERE APPEARS TO BE NO DOUBT THAT PETROLEUM IS A MAJOR ISSUE IN CURRENT UK ARGENTINE NEGOTIATIONS. HOWEVER, EVEN IF A SETTLEMENT ALONG THE LINES SUGGESTED BY TAVELLA IS REACHED, WE DOUBT FROM DISCUSSIONS WITH INDUSTRY SOURCES THAT THERE WILL BE MUCH DEVELOPMENT OF ARGENTINA'S OFFSHORE PETROLEUM RESOURCES IN THE NEAR FUTURE. THE CLIMATIC CONDITIONS IN THAT PART OF THE ATLANTIC ARE SIMILAR TO THOSE

IN THE NORTH SEA AND WOULD REQUIRE A LARGE INVESTMENT. GIVEN ARGENTINAS CHECKERED POLITICAL HISTORY AND NATIONALIST SENSITIVITY TOWARD THE PETROLEUM INDUSTRY, MAJOR OIL COMPANIES APPEAR TO BE RELUCTANT TO COMMIT THEMSELVES TO LARGE INVESTMENT AT THIS TIME. (INDUSTRY SOURCES REPORT THAT INVESTMENT REQUIRED TO DEVELOP FIELDS IN TIERRA DEL FUEGO AREAS BECAUSE THE OFFSHORE PORTIONS ARE CLOSE TO SHORE. DISCUSSED IN PARA 1. IS RELATIVELY SMALL.) OFFSHORE AREAS IN MALVINAS BASIN, AS WELL AS REQUIRING LARGE INVESTMENT, HAVE ADDITIONAL POLITICAL UNCERTAINTIES ATTACHED TO THEM AND THEREFORE THEIR DEVELOPMENT APPEARS EVEN MORE REMOTE.

6. WE ARE POUCHING MAP OF AREA SURVEYED BY GEOPHYSICAL SERVICES.

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